

STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF EXAMINATION

Of

**BENCHOICE, INC**  
Murrany, Utah

As of December 31, 1999



## TABLE OF CONTENTS

|  |    |
|--|----|
| SALUTATION .....   | 1  |
| HISTORY .....  | 1  |
| General .....  | 1  |
| Capital Stock .....  | 1  |
| Dividends to Stockholders .....  | 2  |
| NET WORTH .....  | 2  |
| STATUTORY RESERVES AND DEPOSITS .....  | 2  |
| AFFILIATED COMPANIES .....   | 2  |
| MANAGEMENT .....   | 2  |
| Conflict of Interest .....   | 3  |
| Corporate Records .....  | 3  |
| INTERNAL SECURITY .....  | 3  |
| TERRITORY AND PLAN OF OPERATIONS .....   | 4  |
| PROVIDER CONTRACTS .....   | 4  |
| RATES .....  | 5  |
| REINSURANCE .....  | 5  |
| Ceded/Assumed .....  | 5  |
| GRIEVANCE PROCEDURES .....   | 5  |
| PENDING LITIGATION .....   | 5  |
| ACCOUNTS AND RECORDS .....   | 5  |
| SCOPE OF EXAMINATION .....   | 6  |
| Period Covered by Examination .....  | 6  |
| Examination Procedure Employed .....   | 6  |
| FINANCIAL STATEMENTS .....   | 6  |
| BALANCE SHEET, As of December 31, 1999 .....                                   | 7  |
| STATEMENT OF REVENUE AND EXPENSES, For the Year Ended December 31, 1999 .....  | 8  |
| RECONCILIATION OF NET WORTH, December 31, 1996 through December 31, 1999 ..... | 9  |
| NOTES TO FINANCIAL STATEMENTS .....  | 10 |
| SUMMARY AND RECOMMENDATIONS .....  | 10 |
| CONCLUSION .....   | 11 |

May 4, 2001

Honorable Merwin U. Stewart  
Insurance Commissioner  
State of Utah  
State Office Building, Room 3110  
Salt Lake City, Utah 84114-6901

Commissioner:

Pursuant to your instructions and in compliance with statutory requirements, an examination, as of December 31, 1999, has been made of the financial condition and business affairs of:

**BENCHOICE, INC.**  
Murray, Utah

a limited health plan organization hereinafter referred to as the "Company" and the following report of examination is respectfully submitted.

## HISTORY

### General

In 1996, the Corporation was organized to provide limited health plans for individuals and groups as provided for in the Utah Code Annotated (U.C.A.) § 31A-8-102(b). A certificate of authority authorizing the Company to furnish, through arrangements with others, the services of optometrists, pursuant to U.C.A. § 31A-8-101(6)(a), was issued by the State of Utah Insurance Department, effective July 8, 1996.

There were no amendments to the articles of incorporation or the bylaws during the years under examination.

### Capital Stock

Article five of the articles of incorporation states, "The aggregate number of shares which the corporation shall be authorized to issue is Fifty Thousand (50,000) of \$1 par value per share." On June 20, 1996, the board of directors passed the following resolutions during its organization meeting.

- (1) It was resolved that the Corporation issue and deliver to Beverly J. Pond a certificate representing Five Thousand One Hundred (5,100) shares of the Corporation, at \$3 per share.
- (2) It was further resolved that the Corporation issue and deliver to Talmage J. Pond a certificate representing Four Thousand Nine Hundred (4,900) shares of the Corporation at \$3 per share.

- (3) It was also resolved that the shares so issued shall be fully paid and non-assessable, and that the value of the aforesaid consideration and the stated capital with respect to such shares shall be \$30,000 at \$3 per share.

#### Dividends to Stockholders

Dividend payments were noted in the minutes of the board of directors quarterly meetings, primarily as agenda items. Dividends paid during the examination period were not in accordance with U.C.A. § 31A-5-418(1)(b). The following dividends were paid during the years under examination:

| <u>Period</u> | <u>Total Amount Paid</u> |
|---------------|--------------------------|
| 1996          | \$ 1,580                 |
| 1997          | \$ 2,554                 |
| 1998          | \$ 2,585                 |
| 1999          | \$ 2,536                 |

#### **NET WORTH**

Article five of the article of incorporation states, "all stock of the corporation shall be of the same class, common, and shall have the same rights and preferences. All common stock shall have unlimited voting rights of one right for each share." The Company's net worth since its inception is presented in the "Reconciliation of Net Worth" in the financial statement section of this report.

#### **STATUTORY RESERVES AND DEPOSITS**

Pursuant to U.C.A. § 31A-8-211(1), the Company's statutory deposit requirement was \$12,500 at December 31, 1999. The Company's minimum capital was \$10,000 pursuant to U.C.A. § 31A-8-210(9)(a), and its compulsory surplus was \$5,000 as determined in U.C.A. § 31A-8-210(3). The Company's statutory deposit was \$15,000, which was in excess of its statutory requirement.

#### **AFFILIATED COMPANIES**

The Company was not a member of an insurance holding system during the years under examination.

#### **MANAGEMENT**

Article six of the articles of incorporation states, "(1) the corporate powers shall be exercised by a Board of Directors of not less than one (1) but not more than fifteen (15) Directors. Except for the initial Board of Directors, the terms of office and the number of Directors shall be provided for in the Bylaws, but in no event shall a term exceed five (5) years. (2) All Directors shall serve until their successors are elected and qualified, and a Director may succeed himself." Directors serving at December 31, 1999, and their principal business affiliations were:

| <u>Name and Residence</u>               | <u>Principal Occupation</u>   |
|---|---|
| Talmage J. Pond<br>Salt Lake City, Utah | President and Chief Financial Officer<br>Benchoice Insurance Agency |
| Beverly J. Pond<br>Salt Lake City, Utah | Retired   |
| Todd B. Duzett<br>Salt Lake City, Utah  | Office Manager<br>Dispute Resolution Management Co.                 |

Officers elected and appointed by the board of directors and serving at December 31, 1999, were as follows:

| <u>Name</u>     | <u>Office</u>                           |
|-----------------|---|
| Talmage J. Pond | Chairman of the Board of Directors      |
| Beverly J. Pond | Vice Chairman of the Board of Directors |
| Todd B. Duzett  | Secretary                               |

#### Conflict of Interest

The Company did not have an established procedure for the disclosure, to the board of directors, of any material conflict of interest on the part of its officers, directors, or responsible employees.

#### Corporate Records

Articles two and five of the articles of incorporation state, (Article-2) "The existence of the corporation shall be perpetual. (Article-5) All common stock shall have the right to receive the net assets of the corporation upon dissolution. Fully paid stock of the corporation shall not be liable to any call and is non-assessable."

The minutes of the board of directors and shareholders' meetings were reviewed. In general, the minutes did not adequately document material transactions and affairs of the Company for the years under review. An example of this is discussed under subheading, "Dividends to Stockholders" of this report. Meetings of the board of directors were held on a quarterly basis during the period under examination. In addition, meetings of shareholders were held annually.

### **INTERNAL SECURITY**

As of December 31, 1999, the minimum amount of fidelity bond insurance recommended by the National Association of Insurance Commissioners was fifteen thousands dollars. The Company did not have fidelity bond insurance coverage during the years under examination.

## **TERRITORY AND PLAN OF OPERATIONS**

As of December 31, 1999, the Company was licensed to conduct business as a limited health plan organization in Utah, furnishing through arrangement with others, the services of optometrist. Coverage is provided under two product names, "Vision Choice V (VCV) and Vision Choice X (VCX)." The two products are provider network based vision plans, which allow individuals or families to receive quality vision services at an affordable price. These plans are based on a benefit year, which is the one-year interval from date of eligibility.

## **PROVIDER CONTRACTS**

The Company has contracted with health care providers to provide medical services to its enrollees, generally under the following participating provider's agreements:

Talbert Optical Centers Agreement  
1525 W 2100 S  
Salt Lake City, UT 84119

Standard Optical Agreement  
159 South Main Street  
Salt Lake City, UT 84111

Plan providers under contract agreed to provide generally accepted optical services such as dispensing eyewear and/or eye examinations and agreed to do the following:

- Notify and enroll its optical centers under contract with provider, into the program, as listed and incorporated herein, and shall be updated by provider; and
- Notify Benchoice within thirty (30) days of any change of address or telephone number for any optical center set forth, and to notify Benchoice within thirty (30) days of the addition or deletion of any optical center; and
- Accept the fees listed on the "price list" as payment in full for listed services; and
- Accept and honor any current prescription of an eligible member. Any complication due to incorrect outside prescriptions are the responsibility of, and may be charged to the plan member; and
- That it will use its best efforts to satisfy plan members.

The Company's duties under contract with providers agreed to:

- a) Develop and administer a managed care vision program and will enter into agreements with employer groups, associations, insurance companies, financial organizations, unions, and other organizations to provide such vision benefits to eligible members of such groups; and
- b) Provide membership identification to each member. The parties agree, that membership identification may consist of membership cards with the Benchoice name; and
- c) Respond to all member inquiries and satisfactorily resolve any complaints, which it may receive from enrolled members; and

- d) Maintain a complete current listing of all provider outlets and their addresses and phone numbers for the purpose of referring eligible members.

## **RATES**

The following information was filed with the Insurance Department on August 14, 1996 and reviewed on September 03, 1996. The Company retained the services of Joan Ogden, who is a member of the American Academy of Actuaries, to prepare an actuarial memorandum, which described rate determinations and calculations. Premium rates were developed based on a three-tier structure: single, two-party, and family.

The development of claim costs was based on (1) contracted charge rates for each service between the Company and its designated providers, and (2) use rates expected in a population which self-selects vision coverage, based on loads to a population where vision coverage is not self-selected.

Policies were marketed through general agents as group voluntary coverage. There were no age limits, no exclusions, and no waiting periods. The policy was guaranteed issue and guaranteed renewable. There were no pre-existing condition limitations. The policy form provided for vision benefits from designated providers under a low option or high option, both of which include an annual vision exam and frames, subject to a co-payment amount depending on the retail cost of the frame.

## **REINSURANCE**

### Ceded/Assumed

The Company neither ceded nor assumed reinsurance during the period under examination. The risks undertaken by the Company were minimal. Each provider furnished his/her own vision malpractice insurance.

## **GRIEVANCE PROCEDURES**

As of December 31, 1999, the Company had no formal grievance policy established. This was not in compliance with Utah Administrative Code (U.C.A.) R590-76-8.

## **PENDING LITIGATION**

The Company had no material pending lawsuits as of December 31, 1999.

## **ACCOUNTS AND RECORDS**

Mr. Talmage J. Pond, who is the chief financial officer, performed the Company's accounting procedures and financial reporting functions. Funds were received and entered in the QuickBooks system on a daily basis. Disbursements were made, as needed for capitation, commissions and various offices expenses on a periodic basis. Disbursements were also made quarterly to pay interest received on investments. The bank reconciliation was prepared upon the receipt of bank statements.

The QuickBooks system consists of cash receipts and disbursements journals and a balance sheet. The Company uses Windows' 95 as its operating system. It also runs the "Paradox" software on its computer.

## **SCOPE OF EXAMINATION**

### **Period Covered by Examination**

This is the initial examination of the Company. The examination covers the period from the Company's inception, July 8, 1996, to December 31, 1999, with a review of any subsequent material transactions and/or events as deemed necessary.

### **Examination Procedure Employed**

The examination included a general review and analysis of the Company's operations, the manner in which its business was conducted, and a determination of its financial condition as of December 31, 1999. The examination was conducted in accordance with generally accepted standards and procedures of regulatory authorities relating to such examination.

## **FINANCIAL STATEMENTS**

The statements listed below are presented immediately following in this report.

BALANCE SHEET, As of December 31, 1999

STATEMENT OF REVENUE AND EXPENSES, For the Year Ended December 31, 1999

RECONCILIATION OF NET WORTH, December 31, 1996 through December 31, 1999

The Notes to the Financial Statements are an integral part of the Statements.



**BENCHOICE, INC.**  
**BALANCE SHEET**  
As of December 31, 1999

ASSETS

Current Assets

|                                 |            |
|---------------------------------|------------|
| Cash and Short-term Investments | \$ 3,885   |
| Premiums Receivable             | <u>206</u> |
| Total Current Assets            | \$ 4,091   |

Other Assets

|                                 |                  |     |
|---------------------------------|------------------|-----|
| Other Long-term Invested Assets | <u>37,810</u>    | (1) |
| Total Assets                    | <u>\$ 41,901</u> |     |

LIABILITIES AND NET WORTH

|                   | <u>Covered</u> | <u>Uncovered</u> | <u>Total</u>  |
|-------------------|----------------|------------------|---------------|
| Total Liabilities | \$ <u>-0-</u>  | \$ <u>-0-</u>    | \$ <u>-0-</u> |

Net Worth

|                                 |                  |     |
|---------------------------------|------------------|-----|
| Common Stock                    | \$ 10,000        |     |
| Paid in Surplus                 | 20,000           |     |
| Contingency Reserves            | 7,810            |     |
| Retained Earnings/Fund Balance  | <u>4,091</u>     | (2) |
| Total Liabilities and Net Worth | <u>\$ 41,901</u> |     |

Statutory surplus allocation

|                         |                  |
|-------------------------|------------------|
| Minimum Capital         | \$ 10,000        |
| Compulsory Surplus      | 5,000            |
| Surplus                 | <u>26,901</u>    |
| Total statutory surplus | <u>\$ 41,901</u> |

**BENCHOICE, INC.**  
**STATEMENT OF REVENUE AND EXPENSES**  
For the Year Ended December 31, 1999

REVENUES

|                       |               |
|-----------------------|---------------|
| Premiums              | \$ 23,000     |
| Net Investment Income | 2,607         |
| Service Fee Income    | <u>895</u>    |
| Total Revenues        | <u>26,502</u> |

EXPENSES

|                             |               |
|-----------------------------|---------------|
| Provider                    |               |
| Other Professional Services | <u>15,483</u> |
| Total Provider              | <u>15,483</u> |

ADMINISTRATION

|                         |                 |
|-------------------------|-----------------|
| Administration Expenses | <u>8,489</u>    |
| Total Expenses          | <u>23,972</u>   |
| Net Income (Loss)       | <u>\$ 2,530</u> |

**BENCHOICE, INC.**  
**RECONCILIATION OF NET WORTH**  
December 31, 1996, through December 31, 1999

|                                  | <u>1996</u>      | <u>1997</u>      | <u>1998</u>      | <u>Per Exam<br/>1999</u> |
|----------------------------------|------------------|------------------|------------------|--------------------------|
| Net Worth @ December 31          |                  |                  |                  |                          |
| Prior Year                       | \$               | \$ 38,014        | \$ 42,020        | \$ 41,907                |
| Net Income                       | 1,784            | 2,560            | 2,472            | 2,530                    |
| Common Stock                     | 30,000           |                  |                  |                          |
| Contingency Reserves             | 7,810            |                  |                  |                          |
| Dividends to Stockholders        | (1,580)          | (2,554)          | (2,585)          | (2,536)                  |
| Contribution to Capital (S/T-CD) |                  | 4,000            |                  |                          |
| Net Worth @ December 31          |                  |                  |                  |                          |
| Current Year                     | <u>\$ 38,014</u> | <u>\$ 42,020</u> | <u>\$ 41,907</u> | <u>\$ 41,901</u>         |

## NOTES TO FINANCIAL STATEMENTS

### (1) Other Long-term Invested Assets

\$ 37,810

Other long-term invested assets consisted of a high-income fund with a book value of \$6,000 and a market value of \$5,769. In addition, a municipal bond fund with a book value of \$1,810 and a market value of \$2,020. Also, a certificate of deposit with par value of \$30,000 and the market value at the same amount.

### (2) Net Worth

\$ 41,901

The Company had a common stock capital of \$10,000, gross paid in and contributed surplus of \$20,000, and unassigned funds of \$4,091. It also maintained a contingency reserve of \$7,810.

## SUMMARY AND RECOMMENDATIONS

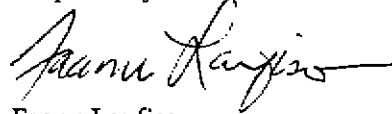
Items of significance or special interest contained in this report are summarized as follows:

1. The Company did not have an established procedure for the disclosure, to the board of directors, of any material conflict of interest on the part of its officers, directors, or responsible employees. It is recommended that a conflict of interest policy be established. **(Conflict of Interest)**
2. Dividend payments were in excess of net income. It is recommended that dividend distributions be made in accordance with U.C.A. § 31A-5-418(1)(b). **(Dividends to Stockholders)**
3. The Company did not have fidelity bond coverage during the period under review. It is recommended that the Company obtain fidelity bond coverage as recommended by the National Association of Insurance Commissioners (NAIC). **(Internal Security)**
4. As of December 31, 1999, the Company had not established a grievance policy. It is recommended that a grievance policy be established in accordance with the Utah Administrative Code (U.A.C.) R590-76-8. **(Grievance Procedures)**
5. As of December 31, 1999, The Company's minimum capital, pursuant to U.C.A. § 31A-8-210(9)(a), was \$10,000. Its gross paid in and contributed surplus and unassigned funds, were \$20,000 and \$4,091, respectively. The Company also maintained a contingency reserve of \$7,810. Its total net worth was \$41,901.

## CONCLUSION

The assistance and cooperation extended during the course of the examination by representatives of the Company is sincerely appreciated.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read 'Faanu Laufiso', with a long horizontal stroke extending to the right.

Faanu Laufiso  
Financial Examiner  
Utah Insurance Department